



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: First Quarter 2021



Introduction

SCERS believes that it can have a beneficial impact on certain Environmental, Social and Governance (ESG) matters consistent with its mission, investment beliefs and fiduciary duties

SCERS has pursued an ESG positive action strategy since 2015 with staff providing quarterly updates to the Board on its progress

The Board has identified *climate change* as an ESG priority for SCERS because of its criticality to the long-term risk and return of the capital markets

Positive Action Strategy

Shareholder
Advocacy

Sustainability
Investments

Integrating Climate
Risk into the
Investment Process



Investor Organizations and Initiatives

SCERS is an active member of three ESG investor organizations that provide shared resources and collaboration opportunities on ESG matters

	 Ceres Network on Climate Risk and Sustainability	 Council of Institutional Investors® The voice of corporate governance	 PRI Principles for Responsible Investment
Primary Focus	Environmental	Governance	Environmental, Social, Governance
Mission	Advance leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet	Be the leading voice for effective corporate governance practices for US companies and strong shareholder rights and practices	Understand the investment implications of ESG factors and support its signatories in incorporating these factors into their decisions
Membership	North American institutional investors	US pensions and other benefit funds	Global institutional investors

SCERS also participates in investor initiatives such as the Climate Action 100+ and Climate Majority Project related specifically to climate change



Shareholder Advocacy

Description

SCERS is an active shareholder employing its available rights to encourage companies to take actions that help mitigate climate change, which include increased disclosure, conducting climate risk assessments and ensuring robust government regulation

Current Focus

Interact with SCERS-invested managers so that they fully understand the financial impact of climate change and support actions that help mitigate climate change through their proxy voting and corporate engagement efforts

Engage, alongside other institutional investors, with a limited set of the highest fossil fuel-emitting companies so that they take necessary action on climate change

Advocate, alongside other institutional investors, for preserving and strengthening shareholder rights with regulators, policymakers and other relevant bodies



Shareholder Advocacy

Quarterly Activity



SCERS joined the Coalition United for a Responsible Exxon (CURE) in a letter to the **Exxon** Board of Directors that raised urgent concerns with the company's strategy and demanded change¹. The letter voiced support for the activist campaign led by CalSTRS, DE Shaw and Engine No. 1 that is seeking to reform Exxon's priorities and operating goals with the goal of improving financial performance and environmental stewardship. Exxon has since announced emission reduction plans and made changes to the Board that suggest the company may be beginning to change.

SCERS also co-filed a shareholder resolution at **Exxon** that was led CalPERS. The resolution would have required Exxon to report scope 3 emissions. Exxon acquiesced to the request and began reporting scope 3 emissions, so the resolution was withdrawn².

¹ <https://curexton.org/wp-content/uploads/2021/02/CURE-press-release.pdf>

² https://corporate.exxonmobil.com/News/Newsroom/News-releases/2020/1214_ExxonMobil-announces-2025-emissions-reductions_expects-to-meet-2020-plan



Shareholder Advocacy

Quarterly Activity



The **Securities and Exchange Commission (SEC)** created a Climate and ESG Task Force in the Division of Enforcement. The task force's initial focus will be to identify any material gaps or misstatements in company disclosures of climate risks. SEC Chair Nominee Gary Gensler also backed increased climate risk disclosure regulations during his confirmation hearings. These announcements are a significant departure from the SEC under the prior Administration. SCERS has advocated for increased climate risk disclosure in joint letters to the SEC over the past several years.

¹ <https://www.sec.gov/news/press-release/2021-42>



Sustainability Investments

Description

Proactively evaluate investments that are expected to help address climate change, such as renewable energy infrastructure, and selectively make such investments if economically equivalent or superior to other available investments in the same category

Current Focus

Commit additional capital to the Infrastructure asset class to achieve its target weight (4%) by investing in diversified managers who preferably have experience and capabilities in the renewable energy sector

Monitor investments in green bonds by SCERS-invested managers and continue evaluating other sustainability investments



Sustainability Investments

Quarterly Activity



Global Infrastructure Partners, a SCERS-invested manager, acquired MAP RE/ES, the renewable energy and battery storage business of MAP Energy. The business represents royalty interests across more than 16,000 MW of operating wind and solar projects in the United States, as well as a development pipeline of future renewable energy and battery storage projects.

Brookfield

Brookfield, a SCERS-invested manager, acquired a distributed generation platform from Exelon Generation Company. The platform comprises 360 MW of operating distributed solar throughout the United States and an additional 700 MW under development. Brookfield also acquired an 845 MW windfarm in Oregon that they plan to repower to boost generation by approximately 25%.

¹ <https://www.global-infra.com/news/2020/12/gip-announces-acquisition-of-map-energys-renewable-energy-business/>

² <https://bep.brookfield.com/press-releases/2020/12-11-2020-121533896>



Integrating Climate Risk into the Investment Process

Description

Consider climate change as a risk alongside macroeconomic, geopolitical and other risks when making investment decisions, while also acknowledging that SCERS must take risk in order to generate the high return that it seeks

Current Focus

Understand and assess how SCERS's managers are integrating ESG considerations into their investment processes in comparison to best practices

Continue working with NEPC to enhance the climate change scenario analysis methodology that was incorporated into the 2019 asset-liability study



Integrating Climate Risk into the Investment Process

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HEITMAN

Heitman, a SCERS-invested manager, committed to have net zero carbon operations by 2030 in its direct real estate properties. Heitman also worked with Urban Land Institute to develop a net zero carbon operations pathway that other private real estate managers can follow. Heitman already assesses the location and operations of its properties across material ESG attributes.



Dimensional

Dimensional, a SCERS-invested manager, published research investigating whether there is a relationship between company greenhouse gas emissions and expected stock returns. Staff met with the manager to review their findings and suggest other areas of research.



Staff Activity



Jill Johnson and Jason Malinowski attended the Council of Institutional Investors Spring conference that was held virtually. Key topics included the upcoming agenda for the SEC and the importance of diversity, equity and inclusion in companies and investment managers.



Staff began evaluating whether to engage an external ESG consultant/service provider for assistance with SCERS's shareholder advocacy activities.



Investor and Industry Developments



New York State Comptroller Thomas DiNapoli announced a review of energy sector investments in the NYS Common Retirement Fund by 2025 to identify companies that have poor climate transition readiness. Companies will be placed on a watch list for engagement and may be underweighted or divested if they fail to demonstrate improvement. Comptroller DiNapoli also announced a commitment to transition the fund to net zero greenhouse gas emissions by 2040



New York City Mayor Bill de Blasio and Comptroller Scott Stringer announced that three of NYC's five retirement systems (Employees' System, Teachers System, Board of Education System) will divest materially from fossil fuel companies. The scope of divestment and names of divested companies are to be announced after the divestment is complete, which is expected to be in the next two years. No financial analysis or other supporting material has been released.¹

¹ <https://www.osc.state.ny.us/files/press/pdf/next-steps-climate-action-plan.pdf>

² <https://comptroller.nyc.gov/newsroom/mayor-de-blasio-comptroller-stringer-and-trustees-announce-estimated-4-billion-divestment-from-fossil-fuels/>



Informational Items



Service Employees International Union Local 32BJ sent a letter to SCERS and other investors in the AEW Core Property Trust. The union expressed concern with AEW about the concierge services company (Planned Companies) that was recently hired for one of its residential properties in New Jersey. SCERS shared these concerns with AEW who adequately addressed staff questions.

UNITEHERE!

SCERS and representatives from other public pensions funds met with **UNITE HERE** to hear their labor concerns at hotel properties owned by Brookfield, a SCERS-invested manager. SCERS has previously shared similar concerns with Brookfield who had adequately addressed staff questions.



Informational Items



Mayor Jenny Durkan sent a letter to the Board on January 13th requesting that “by July 1, 2021, [SCERS] develop the processes necessary to formally adopt the goal of divesting in fossil fuels and ensuring SCERS investments are net zero carbon by 2040.” Councilmember and Board Chair Teresa Mosqueda sent a subsequent letter in support of the Mayor’s request. Executive Director Jeff Davis responded to the Mayor’s letter noting that the topic would be discussed at the upcoming Board meetings and that a more extensive response would be sent following the March Board meeting.



Appendix



Fossil fuel company exposure

SCERS Public Equity Exposure to Fossil Fuel Companies

As of December 31, 2020

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$24.3	0.7%
Indirect	Commingled Fund	\$37.3	1.1%
Total		\$61.6	1.7%

Source: Bloomberg, Fossil Free Indexes, SCERS calculation; excludes overlay program, transition holdings

Note: Fossil Fuel companies as defined by the Carbon Underground 200, a list generated by Fossil Free Indices of the top 100 public coal companies globally and the top 100 public oil and gas companies globally ranked by the potential carbon emissions content of their proven reserves; Carbon Underground 200 constituents as of July 2016